
Examination Scheduling, Scoping, and Management

On April 11, 2002, the Director of the Office of Thrift Supervision (OTS) announced an initiative to improve the examination process by combining the safety and soundness (S&S) and compliance examination functions. Instead of having two separate examination teams (S&S and compliance), each performing an examination and issuing a report, OTS will conduct a comprehensive examination that produces one report of examination and a more thorough assessment of a savings association's risk profile.

LINKS

 [Program](#)

 [Appendix A](#)

 [Appendix B](#)

 [Appendix C](#)

Since August 1, 2002, OTS has been moving towards a more comprehensive examination process. Currently, OTS is in the process of dually accrediting most of its examination staff. Ultimately one examiner-in-charge (EIC) will run comprehensive examinations. Until the agency has EIC level examiners capable of evaluating both safety and soundness and compliance risk, however, two EICs (one well versed in the CAMELS areas and one well versed in Compliance) will oversee the comprehensive examinations. OTS expects that these two EICs will work in tandem as one to ensure a well coordinated, risk focused, comprehensive examination. Therefore, in this Section, when we refer to EIC we mean either a dually accredited EIC or two EICs who are working together as a team. This means planning together, scoping together, conducting interviews together, etc., to conduct the CAMELS and Compliance reviews as one examination.

Other key considerations in a comprehensive examination:

- To consider findings related to Capital, Asset Quality, Earnings, Liquidity, Sensitivity and Compliance in the Management evaluation and component rating. Assess the overall adequacy and effectiveness of risk management and compliance management functions of the association.
- If the EIC determines that transactional level review of certain activities is necessary from both a safety and soundness and compliance review standpoint, then the EIC should ensure that one examiner conducts those reviews efficiently and without redundancy. For instance, when reviewing single-family loan files for the asset quality review, the same examiner can check compliance information such as flood and RESPA.

This Handbook Section integrates the S&S and compliance examination strategy, scoping, and management processes. This Section also provides guidance for Limited and Joint OTS/FDIC examinations.

EXAMINATION STRATEGY AND OBJECTIVES

Timely, efficient, and risk-focused examinations are essential to an effective regulatory oversight function.

Timely examinations ensure that the agency stays abreast of changes in the condition or management of an association. A risk focused examination ensures that OTS examines those associations that pose most risk more frequently, and those with less risk, less frequently. An efficient examination eliminates multiple reviews of the same area for different purposes by combining safety and soundness and compliance reviews of the same areas such as lending or deposits.

Timely, efficient, and risk-focused examinations are essential to an effective regulatory oversight function.

OTS bases the timing of an on-site examination partly on the risk profile of the association, and partly on the scope of examination for any given association. All examinations should be *risk-focused*, meaning that you spend more time looking at higher risk areas within an organization and less time looking at low risk areas. Risk can be based on the nature of an associations operations, the quality of management and staff, and the adequacy of management and the board's ability to identify, manage and monitor risk, and take timely action to remedy identified problems.

Risk-focused examinations assist the agency in ensuring *efficient* use of its resources and ensures that examiners spend the most time looking at areas or activities that pose the most risk. We also achieve efficiency in the examination process through a well-managed examination. Staffing should be appropriate to the size of the association and the scope of the review. In addition, the EIC achieves economies of scale whenever possible to eliminate any redundancies in the review process, particularly between the safety and soundness and compliance transactional level reviews of loans or deposits during the examination. In those associations with adequate compliance management functions and a lower risk loan portfolio, transactional level review may be minimal and thus limit the opportunities for combining transaction review processes. However, the EIC should be mindful of situations where examiners can combine safety and soundness and compliance reviews (particularly at a transactional level).

The goal of the comprehensive examination process is to conduct a single examination where the exam team reviews the compliance and the CAMELS component areas. Based upon the findings in each of these areas, the examination team should be able to make an overall assessment of the association in terms of risk, adequacy of management and the system of risk and compliance management, and future prospects.

SCHEDULING EXAMINATIONS

OTS must schedule full-scope (type 16), on-site examinations of insured depository institutions once during a 12-month cycle or once during an 18-month cycle. You may conduct a limited examination under certain conditions. (See the discussion of Limited Examinations at the end of this Handbook Section.)

A full-scope examination, according to the statute, means that you conduct an on-site examination and rate all CAMELS components. For comprehensive examination purposes, OTS also conducts a compliance review as part of a full-scope examination except as noted below under Intervening State Examinations.

OTS measures the 12-month and 18-month cycles from the “close date” of the last examination to the “start date” of the next examination. The “close date” is the date OTS transmits the Report of Examination (ROE) to the association.

Intervening State Examinations

Regional offices may accept full-scope, on-site examinations conducted by the regulatory authorities of state-chartered depository institutions on an alternating basis instead of an OTS examination, if such examinations meet the requirements and objectives of OTS’s examination strategy. OTS has certain agreements with some States to accept an intervening state examination. OTS accepts intervening state examinations for the following savings associations:

- Composite 1- or 2-rated associations.
- Stable and improving composite 3-rated associations if off-site monitoring between examinations confirms the last composite rating and OTS does not note any adverse trends from available information.

The length of time between examinations (regardless of whether OTS or the state conducts the examination) should not exceed 12 (or 18) months based on the statutory examination cycle requirements.

Generally, States do not perform a Compliance review as part of their examinations. OTS will conduct a separate Compliance review concurrently with intervening state examinations unless all of the following conditions exist:

- The previous Compliance rating was 1 or 2.
- Off-site monitoring shows no material change in the association’s risk profile.
- The association corrected any previous compliance deficiencies.

12-month Cycle

You must conduct a full-scope (type 16), on-site examination of the association once during each 12-month period unless the association meets the 18-month cycle requirements below.

By conducting examinations annually, you increase the chances of discovering problems and resolving them early. Regional offices may conduct full-scope, on-site examinations more often than prescribed by statute.

All de novo savings associations are subject to the 12-month examination cycle. The 12-month examination cycle should continue until management has demonstrated its ability to operate an association in a safe and sound manner and satisfied all conditions imposed at the time of approval.

18-month Cycle

An 18-month examination interval applies to insured savings associations with total assets of \$250 million or less that meet the following criteria in 12 CFR § 563.171:

- The most recent examination received a composite CAMELS rating of 1 or 2 and a Compliance rating of 1 or 2.
- The most recent examination received a Management component rating of 1 or 2.
- The association is well-capitalized as defined under Section 38 of the Federal Deposit Insurance Act (FDIA) and 12 CFR § 565.4.
- The association is not currently subject to a formal enforcement proceeding or order by the OTS or the FDIC.
- The association has not undergone a change in control during the 12-month period since completion of the last full-scope, on-site examination.

Revert to the 12-month examination schedule if any of the following occurs:

- An enforcement action.
- An acquisition or change in control.
- A change in asset size to >\$250 million.
- A downgrade in PCA rating.
- A downgrade to a 3 or worse in the CAMELS composite rating, the Compliance rating, or Management component rating.

If a triggering event occurs in any of the following time frames at an association that otherwise meets all of the criteria for an 18-month examination interval, you must conduct a full-scope examination within the appropriate interval:

- Within 9 months of the “close” date of the prior full-scope examination, start the next examination no later than 12 months from the close of the last full-scope examination.

- Between 9 and 12 months since the close of the last full-scope examination, start the next examination within 90 days.
- Twelve or more months since the close of the last full-scope examination, start the next examination within 90 days, but no later than 18 months from the close of the last full-scope examination.

Conversely, if an association under a 12-month examination interval becomes eligible for an expanded interval, the regional office may immediately expand the interval to 18 months.

EXAMINATION SCOPING AND PLANNING

Scoping an Examination

Scoping is an integral part of a risk-focused examination process, assisting examiners in targeting higher risk areas for review and in determining the appropriate examination procedures for that review. Scoping is the examination planning process that matches the risk profile of an association with the examination programs to enable a focused evaluation of association performance and appropriate rating assignments and conclusions. Scoping is the starting point of any examination and usually begins off-site.

Scoping is an integral part of a risk-focused examination process, assisting examiners in targeting higher risk areas for review and in determining the appropriate examination procedures for that review.

In brief, scoping enables you to understand the present risk profile of an association based on the following:

- A review and analysis of prior examination reports and prior track record of management.
- A review of agency monitoring records and PERK data.
- Interviews with management.
- An assessment about changes in business operations, staffing, or external circumstances.

Based on this risk profile, the EIC can then determine the appropriate areas for examiner review, the depth of review required, the examination procedures to use, and the examination personnel requirements. The EIC may modify an examination scope based on findings during the course of an examination.

Scoping consists of three stages:

- Reviewing preexamination information.

- Conducting management interviews.
- Developing a risk assessment.

It is critical to the risk-focused examination process that you conduct these stages using the most effective off-site and on-site methods that regional resources permit.

Review Preexamination Information

Generally, the EIC begins the scoping process off-site, before the start of the examination, leveraging off work performed by regional staff responsible for monitoring and updating the ECEF and Regulatory Profiles, prior exams and work papers, and relevant PERK materials.

A sample of items that you may review off-site include the following:

Agency Information

- The Electronic Continuing Examination Folder (ECEF), (including Quarterly Monitoring Reports (QMRs) and, if applicable, the Regulatory Profile for the association.
- Results of regional off-site monitoring.
- OTS financial reports including TFR and UTPR.
- Prior thrift, compliance, and holding company, work papers, and recommendations.
- Unresolved issues from preceding examinations.
- Correspondence covering significant matters involving the association that transpired between exams.
- Other correspondence and internal memoranda involving the association.
- Application information – conditions of approval and major applications filed.
- Documentation on supervisory and enforcement actions.
- Consumer complaints filed with OTS since the last examination.
- Suspicious Activity Reports and Currency Transaction Reports.
- CRA Wiz/ HMDA data.

PERK Information

- Preliminary Examination Response Kit (PERK) documents completed by association management before the start of the examination for information related to the following:
 - Changes in operations.
 - Changes in technology risk, systems and controls.
 - Board meetings.
 - Internal and external audits.
 - Compliance self-assessments.
 - Responses and corrective actions to exams and audits.
 - Significant changes in outsourcing or vendor relationships.

General Data

- Economic information about the association's market area(s).
- News articles, including Internet sources.

When you arrive on-site for the examination, review additional information that may affect the scope as soon as possible. Examples of scoping materials commonly reviewed on-site include the following:

- Relevant PERK documents not available before the examination begins.
- Board reports, board minutes, and management reports.
- Compliance reviews and/or compliance self-assessments.
- Internal audit reports.
- Internal Asset Review reports.
- Business plan.
- Operating budget.
- Any new contracts (for example: employment, information systems, leases, etc.).
- Any new or revised policies and procedures.

- Any new product or delivery channel specifications and associated marketing plans.

Conduct Management Interviews

In this stage of the scoping process, the EIC should conduct detailed interviews with the President/CEO, senior management, compliance officer, internal auditor, information security officer, general counsel, or other responsible staff, as applicable. You may conduct some of the initial discussions off-site. Further discussions will take place on-site at the start of the examination and continue (as needed) throughout the duration of the examination.

Use the interview process to confirm, modify, or supplement your preliminary judgment about the association's risk profile, changes in risk profile, management's response to those changes, and management's track record. As the EIC, you should communicate the results of the interviews to the examination team. Discussions should cover the operational impact of the following:

- Business strategic development and implementation.
- Modifications of organizational structure and lines of responsibility.
- Scope and effectiveness of employee training programs.
- Variations in financial condition or risk profile, and operating performance in comparison with the budget.
- Changes in operations that could affect ongoing safety and soundness and compliance performance.
- Actions taken to correct deficiencies identified in previous examinations, audits or compliance self-assessments.
- Management's perspective on economic conditions directly or indirectly affecting the association's financial performance and risk profile.
- Management's status in implementing a formal written compliance policy and self-assessment.
- Alteration of existing or development of new products.
- Significant internal or external audit findings, and management's response to those findings.
- Management's adherence to, or departure from, formally established procedures or standard practices.
- Addition or removal of third-party service providers.

- Adoption, deployment or modification of information technology platforms or tools.

You should adapt the interview process to address the particular circumstances at each association in response to findings from the pre-examination analysis. (Consult the [Basic Matrix in Appendix A](#) as an aide in identifying the regulatory obligations associated with particular products.) This process will assist you in refining the examination scope and in determining to what extent you examine certain operations, and particular laws and regulations.

Risk Assessment

Proper scoping (through document reviews, data analysis and management interviews) allows the EIC to formulate initial conclusions about the savings association's condition and risk profile, including credit risk, operational risk, interest rate risk, compliance risk, strategic risk, and reputation risk.

Using preexamination information and management interviews allows the EIC to formulate an initial assessment of:

- Current financial condition.
- Management and the board's prior track record.
- Material changes in risk profile or operating strategy, and management's response to those changes.
- The association's internal controls, including technology risk controls, risk management, and compliance management systems.
- Responsiveness of management and the board in implementing corrective action to risk management and compliance management deficiencies since the previous examination, audits or reviews.
- Association's efforts to stay abreast of and train the board, management, and staff on safety and soundness and regulatory compliance developments.

Your assessment of these areas is a critical step for determining examination scope and the risk profile.

Selecting Examination Programs and Procedures

Based upon the risk assessment, you will determine the appropriate examination programs and procedures to use. You should consider all programs and questionnaires within the scope of the examination, including the risk-focused and tailored examination procedures. You may use a combination of procedures when performing an examination. You should perform a more detailed review of areas with greater risk or with deteriorating performance indicators and actively pursue any concerns or red flags that you uncover during the examination process. For example, if risk factors require you to go beyond tailored examination procedures, you may use any examination procedures

included in the risk-focused examination procedures, examination procedures in the Examination Handbook, or conduct any other type of review determined appropriate to assess risk. You may expand the depth of review of any given area as additional facts surface that necessitate a more comprehensive review.

Use programs and questionnaires as appropriate, but only to the extent necessary to address the scope and support the examination conclusions. Programs provide guidance necessary to support examination findings and ROE comments. Wherever possible and indicated by the risk assessment conduct simultaneous reviews for safety and soundness and consumer compliance assessments.

In many circumstances, you will not need all or even a majority of the programs.

The EIC may find it helpful to use the [Examination Scope Worksheet in Appendix B](#) to indicate the examination programs to complete on an examination. Discuss the scope of the examination with the Field Manager (FM) or Assistant Regional Director (ARD) and document their concurrence on the worksheet. Before the start of the examination, the EIC will prepare a scoping memorandum, signed by the FM or ARD, that sets forth the risk assessment and exam programs. Retain a copy for the work papers.

For example, if your review of the policies, structure, administration, and results of the association's internal asset review program reveals that the program is sufficient and the results are accurate, you may place a greater reliance on the association's internal review. The risk that the association is not adequately reviewing and classifying its assets would be low, so more detailed examination procedures would generally not be necessary.

When using this risk-focused examination approach, use sound professional judgment to ensure that the depth of review is sufficient to accurately assess the association's condition, but is not excessive. For further information regarding the examination program and the three levels of review, refer to [Examination Handbook Section 010, Handbook and Program Use](#).

EXAMINATION MANAGEMENT

Effective management of the examination expedites and enhances the examination process by ensuring that the examination team meets the exam objectives and does so in an efficient manner. The level and sophistication of examination management methods and procedures will vary depending on the size, nature, and activities of the association.

The EIC may elect to use an Examination Management Checklist such as that found in [Appendix C](#). The checklist provides the time frames of tasks that need to take place before, during, and after each examination.

EIC Responsibilities

The EIC carries the primary responsibility for managing the examination. The EIC's responsibilities include:

- **Examination planning, organization, and implementation:** The EIC is responsible for scoping the examination, setting the examination objectives, communicating the examination objectives to the examination team, and ensuring that the exam team meets the examination objectives.
- **Assignments and job monitoring:** The EIC must determine the expertise necessary to perform certain aspects of the examination and make assignments accordingly. The EIC is responsible for realizing the maximum efficiency from conducting coordinated safety and soundness and compliance reviews consistent with the examination's scope. Depending on the size of the job, the EIC may delegate certain management responsibilities to assistants for efficiency and to improve upon administrative and management skills of assistants.
 - Assign priorities to examination tasks and determine optimal use of comprehensive reviews across exam programs. Maximize efficiency by assigning one assistant to conduct or coordinate interrelated S&S and compliance programs to avoid duplication of effort whenever feasible.
 - Brief the examination team members on their respective assignments, including their participation in examination segments that will involve comprehensive reviews across exam programs and/or cross training. Provide them with the necessary information and resources to conduct their assignments efficiently.
 - Explain the risk assessment and scoping judgment relevant to each assistant's assignment. Discuss the effect of information developed during the exam on the association risk profile, possible changes to the scope, opportunities for conducting comprehensive reviews across exam programs, and the ability to meet assignment deadlines throughout the examination. Adjust assignments as warranted by these considerations.
 - Consider completing the [Examination Scope Worksheet in Appendix B](#) when assigning tasks and budgeting examination hours. The EIC specifies the areas to review on the examination considering the scope. As needed, you may add any activities not included on the worksheet.
 - Monitor the progress of the examination to achieve examination objectives in a timely manner and to identify early adjustments to the scope, staffing, and completion date. The EIC should notify a supervisor as soon as adjustments to scope or other events may affect scheduling or the completion date. The supervisor might consider staff reassignment from other jobs, if necessary.

- Prepare Report of Examination: Incorporate program findings and conclusions, edit comments and finalize the ROE. Compile, index and file work papers. Properly record necessary exam data and regulatory violations in agency systems.
- Serve as the primary communications link: The EIC is the focal point for communications on significant matters. Assistants, association personnel, and regional office staff must all know how to communicate information and when to share information. During the examination, it is important that only one responsible individual provide answers to significant items. The EIC should coordinate this in case questions arise.
 - Examiners should communicate any significant changes to the scope and the reasons for them with examiners involved in holding company, trust and asset management, and information technology (IT) examinations. Share significant findings and conclusions to avoid duplicating efforts.
 - When the FDIC or the state participates in an examination, maintain close communication with FDIC regulatory authorities and appropriate state regulatory authorities. See “OTS/FDIC Joint Examinations Process” at the end of this Handbook Section.
 - Early in the examination, the EIC should discuss with the President/CEO, or with a designated association representative, some of the administrative aspects of the examination, including:
 - ♦ Time frames for receiving requested information.
 - ♦ The availability of the examiners to answer questions from the staff preparing requested information.
 - ♦ Names of key contact people.
 - ♦ Facilities and parking availability.
 - ♦ Hours for work.
 - ♦ Use of equipment.
 - ♦ The expected duration of the examination.
 - ♦ Any planned interruptions (these should be kept to a minimum).
 - ♦ Names of assisting examiners.
 - The EIC should schedule regular meetings with the CEO to discuss the progress of the examination and to address any issues of concern. Conduct the examination efficiently to

minimize undue disruption for the association. Convey any unresolved concerns management expresses about exam progress to a supervisor.

- The EIC should schedule an examination exit meeting with the association's senior management to discuss examination findings, the examiner's overall conclusions, and recommendations (see [Handbook Section 070, Ratings: Developing, Assigning, and Presenting](#)).
- Manage staff development and evaluation of assistants: Assistants may need guidance, depending on their experience and ability. The EIC should encourage questions and ensure that someone is available to provide guidance. Depending on the size of the job, the EIC should be familiar with the work performed by the assistant(s) so that they can make fair and constructive evaluations of their work.
 - Whenever possible, assign assistants to program areas that they can complete, including report pages and comments, before leaving the assignment. This allows for efficiency and accountability and provides necessary on-the-job training.
 - Monitor assistants' performance throughout the examination to ensure that they are meeting objectives according to schedule and consistent with agency standards for quality work product. Early identification of work-related problems also allows the assistants the opportunity to correct mistakes and to immediately improve upon skills.
- Ensure a cooperative and positive working environment: Conduct examinations with as little disruption, conflict, and confusion as possible. A positive work environment fosters the productivity of the team members. Disagreements will occur at times, but avoid an antagonistic role. Allow for regular meetings with management to discuss findings and questions, and avoid monopolizing the time of the staff as much as possible. A professional and considerate approach usually results in cooperation from the association staff.

Off-Site vs. On-Site Examination Procedures

OTS may conduct some examination procedures off-site as proficiently as they conduct them on-site.

Performing examination procedures off-site is optional. Regional directors or their designee should determine whether off-site work is feasible and develop appropriate policies and procedures. In simple terms, you may perform certain procedures off-site at the beginning and end of an examination. Some of the advantages of performing procedures off-site may include reduction in travel expenses and a reduction in the disruption to normal thrift operations attendant with even the best-run examinations.

Savings Association Selection Criteria

You should determine whether to use off-site examination procedures based on certain criteria, including:

- The association's CAMELS and Compliance ratings.
- Prior history.
- Complexity of operations.
- Reliability of data.
- Capabilities of staff assigned.

This approach is flexible because there are no firm guidelines such as asset size, rating, or location to determine when you can or cannot use off-site examination analysis.

Open lines of communication with association personnel are essential at all examinations, but you may have to take extra steps to keep those lines open during off-site portions of the examination. Advise association management of the start and completion of off-site work. Finally, exercise judgment so that you perform on-site work that is appropriate to on-site performance.

PERK Information

You may specify in the PERK letter that OTS will conduct some of the examination work off-site.

Unless it is necessary to retrieve items from the association, request some items in advance for delivery to the field office or other appropriate location. If you select this option, send the PERK out a few days earlier than recommended in the normal customer service standards.

Do not require thrifts to photocopy and ship materials to examiners if it creates rather than reduces regulatory burden. Regulatory staff will have to gauge the resources and attitudes of each thrift toward using off-site examination procedures. Again, keep open the lines of communication with management.

Examination Data System/ Report of Examination

The Examination Data System/Report of Examination (EDS/ROE) should continue to reflect the actual start and completion dates of examination work performed on-site. These dates should correspond with the dates disclosed in the cover page of the examination report.

Continuing Examination File and the General File

Continuing Examination File

Include the following items, only if applicable to the particular association being examined, in the Continuing Examination File (CEF), or file them with the applicable examination programs and carry them forward from examination to examination until no longer applicable. Maintenance of these documents preserves examination continuity and reduces excessive requests for information during examinations:

- Management and Director Committees and Members (PERK)
- Organizational Chart (PERK)
- Officer Resumes (PERK)
- Directors' and Officers' Home Addresses (PERK)
- Enforcement Documents
- Schedule of Branch Offices and LPOs
- Copy of Charter and Bylaws
- Copy of Conditions for Insurance (in force)
- Summary of Leases
- Holding Company/Affiliates Corporate Structure (PERK)
- Internal Audit Program (PERK)
- Stockholders' Schedule (PERK)
- Proxy Statement, if applicable.
- Approved Appraisers and Qualifications (PERK)
- All Contracts (PERK)
- Copies of Written Policies (PERK)

If you must include an association policy as part of work paper support, file it in the appropriate CAMELS or Compliance section of the work papers. Similarly, include the business plan and budget requirements in the Management/Administration work paper file.

General File

The general file contains the administrative information related to the examination and is organized to correspond with the administrative section of the Handbook.

Include the following items in the general file:

- Exception Sheets

- Examination Scope Worksheet (Appendix B)
- Examination Scheduling, Scoping, and Management Program
- PERK Summary Schedule (for next exam)
- Pre-Assignment Analysis
- Overall Conclusions Program
- Recent Correspondence
- News articles

You should use exception sheets to record all specific regulatory and policy violations that you do not specifically discuss in the ROE. Either the managing officer or the appropriate department head must provide a disposition for each problem noted and initial the exception sheet. Provide a copy of all exception sheets to the managing officer.

Examination Conclusion

The EIC is responsible for reviewing and compiling the examination findings and ensuring the Examination Conclusions and Comments page presents a concise and balanced portrayal of an association's condition and future prospects. The ratings should reflect the overall examination findings and conclusions. Update the ECEF and, if applicable, create or update the Regulatory Profile. Also, ensure that the association takes prompt corrective action for any problems found during the examination and closely monitor the association's condition for any recurrence of these or new problems.

OTS regional staff must send the report of examination to 1- and 2-rated savings associations within 30 days from completion of on-site examination activities, and to 3-, 4-, and 5-rated associations within 45 days from completion of on-site examination activities.

Refer to [Examination Handbook Section 070, Ratings: Developing, Assigning, and Presenting](#), for other appropriate examination closing procedures.

OTS/FDIC JOINT EXAMINATION PROCESS

Pursuant to the Information Sharing and Special Examination Agreement with the FDIC, OTS and FDIC regional staffs should meet regularly to review the examination schedule. The FDIC should indicate those examinations in which they desire joint participation. FDIC will perform all savings association examination activities on a joint basis unless compelling reasons dictate otherwise.

For joint examinations, the FDIC and OTS should jointly scope the examination at the EIC level or at the respective regional office level. Disagreements over scope should default to the broader alternative. When examinations of savings association affiliates are necessary, the EIC should decide how to conduct the examinations.

OTS is not required to provide the FDIC a copy of the proposed final report before transmitting it to the association.

OTS is responsible for specialty examinations such as Trust and Asset Management and Information Technology.

Nothing in the joint OTS/FDIC agreement should alter the normal examination and supervisory cooperation with state authorities.

Special Examinations and Information Sharing

A key principle of the information sharing agreement is that the federal banking agencies are committed to providing the FDIC information on and access to insured depository institutions that represent a heightened risk to the insurance fund.

OTS presumes that the following associations represent a “heightened risk” to the insurance fund:

A key principle of the information sharing agreement is that the federal banking agencies are committed to providing the FDIC information on and access to insured depository institutions that represent a heightened risk to the insurance fund.

- Insured depository institutions with a composite rating of 3, 4, or 5.
- Insured depository institutions that are undercapitalized as defined under Prompt Corrective Action.

In other cases, FDIC may request participation in examinations or meetings when an institution exhibits material deteriorating conditions or other adverse developments that could result in the institution becoming troubled in the near term. In limited instances, the FDIC will need to develop contingency plans for an institution’s possible failure or the commencement of the resolution process. FDIC’s Division of Resolution and Receiverships will work with the primary federal regulator to collect contingency planning information on the following institutions:

- Institutions with composite ratings of 4 that would pose unique or exceptional risks in the event of failure.
- Institutions with existing or anticipated composite ratings of 5.

- Institutions significantly or critically undercapitalized as defined under Prompt Corrective Action.
- Institutions otherwise identified as having adverse developments that could result in the institutions becoming troubled in the near term.

The FDIC will collect the information in the most efficient and least disruptive manner, relying on examiners, work papers, examination reports, and other supervisory information as sources for preliminary contingency planning information. If additional information is needed, FDIC staff will meet and coordinate with the institution's primary regulator prior to conducting any on-site information collection and will, to the extent possible, conduct on-site activities concurrently with the primary regulator's scheduled examinations. FDIC or the primary regulator will notify the appropriate institution contact of FDIC's scheduled on-site presence and purpose. The amount and type of information collected will depend on the nature and severity of an institution's problems or risk profile in the event of failure.

With respect to certain identified large savings associations supervised by OTS, FDIC will establish a dedicated examiner program. OTS will keep the dedicated examiner informed of all material developments in the supervision of the institution and will invite the dedicated examiner to observe and participate in certain examination activities. This will ensure that the FDIC has an understanding of the supervisory issues and risk management structure of the identified thrift.

FDIC will fully participate in the review and assessment of the risk of the credits within the Shared National Credit Program in certain large thrifts. When the agencies agree that FDIC's participation is appropriate to evaluate the risk of a particular banking activity to the deposit insurance funds, the FDIC dedicated examiner and other staff, as appropriate, should participate with OTS in selected supervisory reviews of that activity. This includes meetings with bank management relating to those reviews. In the event Agencies' staff cannot agree, the respective Agencies representative to the FFIEC Supervision Task Force will determine whether FDIC participation is appropriate. In the event the two representatives cannot agree, the Chairman of the FDIC and the Director of OTS will resolve the dispute.

Report of Examination

Joint examinations represent a division of responsibilities among the joint staff; the OTS and FDIC should each provide an EIC, who will share responsibility for managing the examination and will be responsible for resolving interagency differences during the examination process. EICs of both agencies should coordinate and communicate during the examination to ensure that they achieve examination objectives with a minimum of redundancy.

The FDIC's ROE will be for internal purposes only, although they will provide a copy to the OTS. If the FDIC Board authorizes an enforcement action, however, the FDIC would then transmit its examination report to the institution. As the OTS and FDIC regional staffs prepare the concurrent reports, they should attempt to resolve all significant differences of opinion concerning the thrift's overall condition and the enforcement or corrective action needed.

The OTS view will prevail concerning nonsubstantive differences in examination interpretations, conclusions, and report comments. If there are differences in CAMELS and Compliance ratings between FDIC and OTS, FDIC's senior management will, after consultation with OTS' senior management, make any decision to depart from OTS' assigned rating. Substantive differences in examination conclusions that could lead to an enforcement action by the FDIC if not pursued by OTS, and that the EIC cannot resolve, should be referred to the OTS and FDIC regional offices for resolution at the time such differences are identified. The regional offices must resolve such differences within ten working days. If they cannot resolve such differences following full review and communication between the regional offices within ten working days, the regional offices refer the matter to the FDIC Director of Supervision and OTS Deputy Director. It is expected that they will resolve such differences within ten working days. If the differences remain unresolved, the FDIC should so notify OTS of the differences and that they will seek corrective action authorization from the FDIC Board.

Prepare the OTS examination report using generally accepted accounting principles as the appropriate accounting treatment for financial accounting information. Use OTS regulations, policies, and directives in reaching examination conclusions.

The OTS and FDIC should routinely copy one another on institution-related correspondence. The OTS provides the FDIC with copies of examination-related correspondence.

OTS should share, but retain, examination work papers, loan line sheets, report pages, and findings following completion of the examination, and provide interim examination access to the FDIC upon request.

Board of Directors Meeting

The OTS and FDIC should jointly participate in examination-related meetings with management and directors during and at the conclusion of joint examinations. The FDIC should communicate all actions taken by the FDIC Board to the institution after notification to the OTS.

LIMITED EXAMINATIONS

You may conduct a limited examination for the following associations:

- De novo or newly insured saving associations.
- Associations that have had a change in management, control, or operations.
- Associations under an enforcement agreement.
- Associations whose conditions undergo a significant change.

Use the limited examination (type 46) for reviews focusing on high-risk areas. Limited examinations do not satisfy the 12/18-month requirement.

You may conduct a limited examination on-site or off-site. To determine if an association needs an on-site, limited examination focus on the following factors:

- Changes in business activity and strategy, such as a change in loan product lines, the investment portfolio, or the deposit structure.
- Action taken by management to correct items of concern noted at the most recent examination.
- Deterioration in asset quality indicators such as nonperforming assets.
- Circumstances indicating a deteriorating and deficient Compliance management program.
- Noncompliance with prior enforcement actions.
- Negative earnings, unfavorable earnings trends, or dependence on nonoperating income.
- The levels and composition of capital, as well as trends in capital formation and accumulation.
- An excessive rate of growth or a level of growth that exceeds capital levels or regulatory or supervisory directives.
- Changes in other key financial ratios and indicators.
- Other information such as the external audit report, news articles, supervisory correspondence, consumer complaints alleging discrimination, and information obtained from examinations of other savings associations.

You may also use the limited examination to ensure the association's compliance with certain conditions. Depending on the circumstances of the limited examination, you may use specific ROE pages or a memo-style format to report your findings.

REFERENCES

Code of Federal Regulations (12 CFR)

§ 563.171 Frequency of Examinations

Office of Thrift Supervision Bulletins

TB 68a Appeals and Ombudsman Matters

Closely Related Handbook Sections

Section 010 [Handbook and Program Use](#)

Section 040 [Examination Systems](#)

Section 045 [Regulatory Action Data \(RAD\) System](#)

Section 070 [Ratings: Developing, Assigning, and Presenting](#)

OTS Report of Examination Instructions

Interagency Agreements

FFIEC Guidelines for Relying on State Examinations (June 27, 1995)

Information Sharing and Special Examination Agreement with the FDIC (January 25, 2002)